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SUBJECT: GM/OPEL JOB CUTS, LABOR UNREST, AND PLANT CLOSURES
ON THE HORIZON

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11. (SBU) SUMMARY: General Motors has announced plans for massive job cuts and future plant closures at European subsidiary Opel, sparking labor unrest, including a wildcat strike at the Opel plant in Bochum beginning October 14, and reactions from federal and state ministers. The Hesse state government expressed public concern over the future of Opel's flagship plant in Ruesselsheim (outside Frankfurt) but made no move to offer a rescue package. For his part, Federal Minister of Economics and Labor, Wolfgang Clement, urged workers at the Bochum plant to return to work. However, he ruled out any direct federal government support for Opel. Opel works council and management opened talks at Ruesselsheim October 18. The announced plans at the second largest U.S. investment in Germany comes days after announcements regarding plans by Europe's largest retailer -- Karstadt Quelle -- to lay off as many as 3,000 German employees in the coming year. In private conversations, Opel management and labor figures note the larger picture issue of continuing stagnant German and European demand for mid-range cars. END SUMMARY.

12. (SBU) On October 13, GM Europe announced plans to eliminate 12,000 jobs in the firm's factories, including 10,000 of Opel's 32,000 jobs in Germany by the end of 2005, citing the high costs of doing business in Germany. GM Europe President (and former Opel CEO) Carl-Peter Forster was quoted saying that if Opel produced in Germany at the same wage levels as in France, the company would improve its bottom line by over 500 million euros annually (NOTE: GM Europe posted a \$470 million operating loss in 2003. END NOTE). GM Europe Chairman Fritz Henderson said the company's multi-year losses in Europe are beyond any precedent and that it must make radical cuts without harming customers (i.e., make cuts in production and research divisions).

13. (SBU) Opel workers reacted strongly. Protesting the planned job cuts, workers at Opel's Bochum plant have engaged in what amounts to a wildcat strike since October 14. The plant works council announced that the stoppages would continue until company management guarantees there will be no lay-offs for operational reasons, no plant closures, and no outsourcing of production. A European-wide action day is planned for Tuesday, October 19, to protest GM plans to lay off 12,000 workers at its European plants. In the meantime, Opel's works council and management opened talks at Ruesselsheim, one of Opel's four German production sites.

14. (SBU) In a September meeting with EMIN, Opel Works Council chairman Klaus Franz (who represents Opel's 32,000 employees in Germany and serves as deputy supervisory board chairman and a member of GM's European works council) criticized GM managers in Detroit as pitting European plants against each other. Franz said that GM is repeating the mistakes of the 1990s, destroying improvements in quality and image, reneging on agreements between the works council and plant management, and running morale into the ground. Franz also noted he is in daily contact with his counterpart at GM's Trollhattan facility in an effort to keep the German and Swedish plants afloat. Nevertheless, Franz stated Germany needs to pursue economic reforms -- an area where he disagrees with the IG Metall leadership -- and that Germany's high wage costs are damaging the country's international competitiveness. He noted as well a long-standing problem with overcapacity in Ruesselsheim and other Opel facilities.

15. (SBU) Frank Klaas, General Director of Communications at Adam Opel AG, told EMIN that Russelsheim has long operated at no more than 70% capacity. He blamed continuing soft demand levels in Germany and the rest of the EU as a major factor for this situation. Whereas in 1994 Germans bought a new car every 3)4 years, today they purchase one every 7)8 years. The weak economy, uncertainty over the course of Berlin's

economic reforms and new environmental measures, both real and potential, and fears of rising unemployment all deter German car buyers. Germany's corporate tax levels and rising costs of energy used in producing cars are problems as well. Klaas argued the unions are out of date with market realities and do not see the need to cut wages. Opel, as a producer of mid-range cars, is in the same straits as Ford Germany and VW.

16. (U) In a visit to the protesting workers on Sunday, Federal Economics and Labor Minister Wolfgang Clement had urged them to return to work, calling their action "understandable, but not useful for a meaningful solution." He urged Opel management and works council to begin talks on a joint rescue plan, but he ruled out any direct federal government support for Opel's recovery, including an active government role in the negotiations. Hesse Economics Minister Alois Rhiel (CDU/Christian Democrats) called GM Europe's announcement "alarming" and praised Ruesselsheim's modern technology, highly qualified workforce and optimal transportation infrastructure. In media statements, Hesse Minister-President Roland Koch (CDU) called on employees and management in Ruesselsheim to agree on wage cuts in order to protect jobs. He cautioned Swedish authorities not to support the Trollhattan plant with subsidies and said Hesse would challenge such a strategy at the European level. While affirming Opel's strategic importance for the Hesse economy and the need to "save what can be saved," M-P Koch made no concrete offer to support operations in Ruesselsheim.
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